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## BAUCUS LOOKS TO ENSURE STRUCTURE, DELIVERY OF TAX INCENTIVES WORKS FOR TAXPAYERS, SPURS ECONOMIC GROWTH

Finance Chair Looks to Ensure Maximum "Bang for the Buck" in Tax Incentives

Washington, DC – Senate Finance Committee Chairman Max Baucus (D-Mont.) convened a hearing today to examine the effectiveness of tax incentives for individuals and businesses, with an eye toward ensuring incentives achieve the most value for their costs and effectively work to strengthen the American economy. With numerous incentives in the code designed to encourage behavior, such as saving for college or retirement, Baucus looked at how to measure the effectiveness of these incentives and how to best structure incentives so people respond as intended. Today's hearing is part of a Finance Committee series examining ways the tax code can be more fair and simple, to boost the economy and increase the competitiveness of U.S. businesses at home and in the global market.

"Tax incentives help all of us meet critical goals, such as saving for retirement or paying for college, so we need to ensure we are getting the largest possible bang for the buck from these incentives," said Baucus. "Today, there are 15 different higher education tax incentives, which can certainly be confusing, and we simply can't allow complexity to stand in the way of a college degree. Similarly, the Research and Development Tax Credit expires almost every year, making it difficult for companies to make the investment decisions necessary to help our economy grow and create jobs. Determining the best incentives and ensuring taxpayers respond to them successfully is an important part of our tax reform effort."

At today's hearing, Baucus examined how the presentation and structure of tax incentives affect the way individuals respond to them. He noted as an example that taxpayers are more responsive to incentives that immediately match their own contribution, such as in retirement savings, than they are to a cash tax rebate at the end of the year. Similarly, Baucus noted that taxpayers tend to respond to incentives more quickly and in greater numbers when the benefit is offered at the time of purchase, rather than after they file their taxes. He noted the Cash for Clunkers program, which provided consumers with a cash benefit at the time they purchased a more energy-efficient vehicle, was more effective than similar traditional tax credits. Baucus heard from the witnesses that refundable tax credits are often one of the most effective of all of the ways to structure tax incentives, particularly when they can be offered at the time individuals act. Baucus stressed the need to determine what makes Americans respond to tax incentives to ensure the tax code achieves its targeted goals.

Baucus also looked at how complexity and the temporary nature of some tax incentives can limit their effectiveness. He noted that there are more than 15 different tax incentives available to make

college education more affordable and questioned whether the complexity taxpayers face in determining the most appropriate incentive for their situation provides less of an incentive to college enrollment than would be possible if the incentives were simplified. And Baucus asked the witnesses what changes could be made to education tax incentives to make them more simple, upfront and transparent. Baucus said tax reform should ensure incentives are as effective and efficient as possible. He stressed the importance of a clear and simple tax code that eliminates confusion and provides predictability and stability to allow taxpayers to plan effectively. And Baucus discussed with the witnesses how other countries structure their tax code to ensure it meets those goals.

In 2010, the Treasury used \$109 billion for more than a dozen different incentives to help Americans save for retirement and \$91 billion to promote homeownership through the mortgage interest deduction. All in all, incentives in the income tax code cost more than one trillion dollars each year, which is about the same as the total amount raised by the entire income tax code.

The Finance Committee began its review of the code last September with a review of the lessons of the 1986 Tax Reform Act and considered historical trends in income and revenue last December. More recently, the Committee held hearings to look at changes to the tax environment over the last two decades and to consider whether the tax code could do more to incentivize economic growth and job creation. Watch today's and all past hearings and view witness testimony on the Committee website at <a href="http://finance.senate.gov/hearings/">http://finance.senate.gov/hearings/</a>.

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